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REPORT TO THE LEGISLATURE

BOARD OF PUBLIC EDUCATION

Financial-Compliance Audit
For Fiscal Years 1986-87 and 1987-88

This report contains one recommendation
related to revenue misclassification.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA
Office of the Legislative Auditor

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HELENA, MONTANA 59620
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DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

April 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education for each of the two fiscal years ending June 30, 1988. This report contains one recommendation relating to revenue misclassification. The board's written response to the audit recommendation is included in the back of our audit report.

We thank the chairman of the board and the board's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

BOARD OF PUBLIC EDUCATION

Financial-Compliance Audit
For Fiscal Years 1986-87 and 1987-88

Members of the audit staff involved in this audit include: Geri Huschka, Wayne Kedish, Cindy Susott, and Gary Trescott.

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

BOARD OF PUBLIC EDUCATION

Stan Stephens	Governor*
Nancy Keenan	Superintendent of Public Instruction*
Carrol Krause	Commissioner of Higher Education*

		<u>Term Expires</u>
Alan Nicholson, Chairman	Helena	1992
Ted Hazelbaker	Dillon	1990
Sarah Listerud	Wolf Point	1991
William Thomas	Great Falls	1993
Thomas A. Thompson	Heart Butte	1994
Anita A. Johnson	Lewistown	1995
C. John Kinna	Helena	1996
Lerria Rogers, Student Rep.	Helena	1989

*ex officio members

ADMINISTRATIVE OFFICIAL

Claudette Morton	Executive Secretary
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SUMMARY OF RECOMMENDATIONS

This list serves as a means of summarizing the recommendation contained in the report and the audited agency's reply.

Page

Recommendation #1

The Board of Public Education record grant money in accordance with state policy.

3

Agency Response: Concur. See page 13.

INTRODUCTION

We performed a financial-compliance audit of the Board of Public Education (BPE) for the two fiscal years ended June 30, 1988. The audit objectives were to:

1. Determine if the board complied with applicable state laws and regulations.
2. Determine if the board's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1988.
3. Make recommendations for improvement in management and internal control of the board's operations.

Based on the results of our audit we issued an unqualified opinion on the board's financial schedules (see the opinion on page 5).

The prior audit of the Board of Public Education was conducted for the two fiscal years ended June 30, 1986. There were no prior audit recommendations. For this report, in accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendation.

BACKGROUND

The Montana Board of Public Education was created by Article X, Section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the Governor and confirmed by the Senate. Members are appointed for seven-year overlapping terms. A student, selected annually by the Montana Association of Student Councils, also sits as a nonvoting member of the board. The board operates an office in Helena with five full-time employees.

The Board of Public Education exercises general supervision over the public school system and such other public educational institutions as may be assigned by law. The Board of Public Education is assigned statutory responsibilities, including the establishment of policies for school accreditation, teacher certification, state equalization and distribution, special education, school bus standards and regulations, student assessment, school transportation, high school equivalency certifications, gifted and talented, and the designation of school days and hours.

The 50th Legislature created the Certification Standards and Practices Advisory Council to the BPE. The council consists of seven members appointed by the board. It is the responsibility of the council to study and make recommendations to the board in the following areas: teacher, administrator and specialist certification standards; teacher education programs; standards of professional practices and ethical

conduct; and policies relating to the denial, suspension, and revocation of teaching certification and the appeals process.

The board is assigned by statute the general supervision of the Montana School for the Deaf and Blind and the Montana Fire Services Training School (FSTS). The Governor signed Chapter 20, Laws of 1989 on February 16, 1989, which reassigned the FSTS to the Board of Regents effective July 1, 1989. At the request of the board, the School for the Deaf and Blind and the Montana Fire Services Training School are being audited separately and the reports are issued under separate covers.

INCREASED STAFF

The Board of Public Education was given three additional full-time equivalent employees (FTE) in fiscal year 1988 because of added responsibilities; the Advisory Council researcher, the coordinator for Project Excellence, and a secretary. However, the coordinator position for Project Excellence is authorized only for fiscal years 1988 and 1989. Expenditures have increased between fiscal years 1987 and 1988 due to the increased activity and related FTE. The board spent \$107,473 during fiscal year 1986-87 and \$209,165 during fiscal year 1987-88.

REVENUE MISCLASSIFICATION

The Board of Public Education receives grant money from the Carnegie Foundation of New York which is channeled through the National Governors' Association's Center for Policy Research (NGA). The grant money is used for administrative costs of project excellence. The \$5,000 of grant revenue was recorded in a federal special revenue fund and classified as Miscellaneous Federal Assistance during the fiscal year 1987-88.

State law, section 17-2-102, MCA, defines federal special revenue funds as money deposited in the state treasury from federal sources. The "other special revenue funds" are defined as money deposited in the state treasury from private sources. The Montana Operations Manual states the federal financial assistance revenue class is to include only revenue received from a federal agency. Private grant revenue should be recorded in a nonfederal revenue class.

The Statewide Budgeting and Accounting System (SBAS) at June 30, 1988, does not correctly reflect the proper revenue funding source and revenue classification for the NGA grant. Agency personnel said they were aware of the misclassification but had not changed the special revenue fund or revenue class as of the end of our audit period.

RECOMMENDATION #1

We recommend the Board of Public Education record grant money in accordance with state policy.

INDEPENDENT AUDITOR'S REPORT
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF INDEPENDENT AUDITOR'S REPORT

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments for errors noted during the audit. This is done to convey the degree of reliance users may place on this SBAS information. The unqualified opinion on the schedules presented means that the schedules are fairly stated in all material respects and that the user can rely on the information presented.



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

STATE OF MONTANA

Office of the Legislative Auditor

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406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Public Education for each of the two fiscal years ended June 30, 1987 and 1988, as shown on pages 6 through 12. The information contained in these schedules is the responsibility of the board's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operation and changes in fund balances of the Board of Public Education for each of the two fiscal years ended June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

March 10, 1989

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1986	\$ <u>-0-</u>	\$ <u>-0-</u>
ADDITIONS:		
<u>Fiscal Year 1986-87</u>		
Prior Year Expenditure Adjustments	\$ 101	
Support From State Of Montana	107,372	
<u>Fiscal Year 1987-88</u>		
Support From State Of Montana	163,176	
Budgeted Revenue		\$ 5,000
Cash Transfers In		<u>45,380</u>
Total Additions	<u>270,649</u>	<u>50,380</u>
REDUCTIONS:		
<u>Fiscal Year 1986-87</u>		
Budgeted Expenditures	107,473	
<u>Fiscal Year 1987-88</u>		
Budgeted Expenditures	<u>163,176</u>	<u>45,989</u>
Total Reductions	<u>270,649</u>	<u>45,989</u>
FUND BALANCE: June 30, 1988	\$ <u>-0-</u>	\$ <u>4,391</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 10 through 12.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED REVENUE - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Licenses and Permits</u> ¹	<u>Federal Assistance</u>	<u>Total</u>
SPECIAL REVENUE FUND			
Estimated Revenue	\$ 48,000	\$ 15,000	\$ 63,000
Actual Revenue	<u>0</u>	<u>5,000</u>	<u>5,000</u>
Collections Over (Under) Estimate	\$(48,000)	\$(10,000)	\$(58,000)

¹ The licenses and permits revenue is an estimate of revenue from teachers certification licenses. The revenue was received at Office of Public Instruction and transferred to Board of Public Education at fiscal year-end 1988 as a cash transfer.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 10 through 12.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Board of Public Education</u>	<u>Advisory Council</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$ 75,277	\$25,915	\$101,192
Other Compensation	7,650		7,650
Employee Benefits	<u>15,797</u>	<u>6,273</u>	<u>22,070</u>
Total	<u>98,724</u>	<u>32,188</u>	<u>130,912</u>
OPERATING EXPENSES			
Contracted Services	23,568	378	23,946
Supplies & Materials	4,250	702	4,952
Communications	9,561	1,067	10,628
Travel	27,123	3,640	30,763
Rent	1,222	171	1,393
Repair & Maintenance	2,133		2,133
Other Expenses	<u>864</u>	<u>256</u>	<u>1,120</u>
Total	<u>68,721</u>	<u>6,214</u>	<u>74,935</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	<u>699</u>	<u>2,619</u>	<u>3,318</u>
Total	<u>699</u>	<u>2,619</u>	<u>3,318</u>
TOTAL PROGRAM EXPENDITURES	<u>\$168,144</u>	<u>\$41,021</u>	<u>\$209,165</u>
GENERAL FUND			
Budgeted	\$189,066		\$189,066
Actual	<u>163,176</u>		<u>163,176</u>
Unspent Budget Authority	<u>\$ 25,890</u>		<u>\$ 25,890</u>
SPECIAL REVENUE FUND			
Budgeted	\$ 15,000	\$57,000	\$ 72,000
Actual	<u>4,968</u>	<u>41,021</u>	<u>45,989</u>
Unspent Budget Authority	<u>\$ 10,032</u>	<u>\$15,979</u>	<u>\$ 26,011</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 10 through 12.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Board of Public Education</u>
PERSONAL SERVICES	
Salaries	\$ 50,995
Hourly Wages	3,227
Other Compensation	3,762
Employee Benefits	<u>11,227</u>
Total	<u>69,211</u>
OPERATING EXPENSES	
Contracted Services	15,805
Supplies & Materials	3,215
Communications	4,784
Travel	9,938
Rent	358
Repair & Maintenance	240
Other Expenses	<u>933</u>
Total	<u>35,273</u>
EQUIPMENT AND INTANGIBLE ASSETS	
Equipment	<u>2,989</u>
Total	<u>2,989</u>
TOTAL PROGRAM EXPENDITURES	<u>\$107,473</u>
GENERAL FUND	
Budgeted	\$110,425
Actual	<u>107,473</u>
Unspent Budget Authority	<u>\$ 2,952</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 10 through 12.

BOARD OF PUBLIC EDUCATION
NOTES TO FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The state of Montana uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

1. If the appropriation provided funds to complete a given project, the entire amount of an existing service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
2. The anticipated cost of equipment is expensed in the fiscal year in which a purchase order has been issued.
3. Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
4. Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the current fiscal period.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the board:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation authority is required to spend from this fund.

The Special Revenue Fund at the school accounts for the advisory council and the National Governors Association Grant. The funds were established in fiscal year 1987-88. The advisory council studies and makes recommendations regarding teacher certification standards and practices. The National Governor Association Grant is used in research for the schools accreditation study, project excellence.

2. ANNUAL AND SICK LEAVE

Employees at the board accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the presented financial schedules of the Board of Public Education. Expenditures for termination pay currently are absorbed in the annual operational costs of the board. At June 30, 1988 the board had a liability of \$8,872 for vacation leave and \$3,458 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System or Teachers' Retirement System. The board's contributions to these plans are shown below:

	<u>Fiscal Year</u> <u>1986-87</u>	<u>Fiscal Year</u> <u>1987-88</u>
Combined Contribution	\$3,685	\$6,874

4. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. REVENUE CHANGES

The BPE received special revenue fund money in fiscal year 1988. Therefore, a Schedule of Budgeted Revenue - Estimate and Actual is presented for the fiscal year ended June 30, 1988. No revenue schedule is necessary for fiscal year 1987 since the only resources received by the BPE is support from the state.

6. LITIGATION

The Board of Public Education is named as a defendant in: Helena Elementary School District #1, et. al. v. State of Montana, et. al. in district court. This case is commonly known as the school foundation lawsuit. The lawsuit was decided for the plaintiff against the BPE and the state, in February 1989. The presiding judge made the decision effective on October 1, 1989, in order to give the 1989 Legislature an opportunity to correct the foundation program's inequities. The Supreme Court upheld the district court's decision but specifically retained jurisdiction until July 1, 1989, and on that date the holdings of the Supreme Court's opinion becomes fully effective for all school terms commencing after that date.

The board is named as a defendant in Peretti et. al. v. State of Montana, Missoula County. The plaintiffs in the case are sixteen former students in the Aviation Technology program at the Missoula Vocational-Technical Center who claim damages resulting from cancellation of the second year of the program in June 1977. The district court judge has determined that the state is liable for breach of an implied contract with the students; the district court entered a monetary judgment for the defendant in the amount of \$2.5 million. The state is presently seeking appellate review of the liability issue and the outcome of the appeal is uncertain.

The board is also named as defendant in Associated Press, et. al v. Board of Public Education. The case involves a claim regarding the open meeting law and the estimated potential liability is currently unknown.

AGENCY RESPONSE



Board of Public Education

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MAY 3, 1989

Montana Legislative Auditor

Claudette Morton
Executive Secretary

BOARD MEMBERS

EX OFFICIO MEMBERS:

Stan Stephens, Governor

Nancy Keenan, Superintendent
of Public Instruction

Carrol Krause, Commissioner
of Higher Education

APPOINTED MEMBERS:

Alan Nicholson, Chairman
Helena

Ted Hazelbaker
Dillon

Anita Johnson
Lewistown

John Kinna
Helena

Sarah "Sally" Listerud
Wolf Point

Bill Thomas
Great Falls

Thomas A. Thompson
Heart Butte

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

This letter is in response to your audit report on the Board of Public Education for the two-year period ending June 30, 1988.

In response to the recommendation contained in the audit report, I offer the following comment.

RECOMMENDATION #1

We recommend the Board of Public Education record grant money in accordance with state policy.

COMMENT

The staff will submit forms to the Accounting Division to assure that the grant will be recorded in accordance with state policy.

Sincerely,

A handwritten signature in cursive script that reads "Claudette Morton".

Claudette Morton
Executive Secretary

CM:pla

cc: Chairperson Alan Nicholson

